

ALASKA DEPARTMENT OF REVENUE

News Release

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William A. Corbus, Commissioner

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Oil Prices and Production Decline

Juneau- Department of Revenue Commissioner Bill Corbus today released the final revenue forecast of the Murkowski Administration. The main features are record revenues for the current fiscal year reflecting the new Petroleum Profits Tax followed by expected long term revenue decline driven by a decline in ANS production and crude oil prices.

“Governor Murkowski is absolutely right to put a high priority on the administration’s efforts to enable a gas line to the Midwest,” Corbus said. “If revenues associated with Alaska natural gas do not kick in before 2014 or 2015, government services will likely be dramatically reduced. This forecast also underscores the need to adopt a fiscal plan now.”

Revenue officials project crude oil prices on the West Coast at \$59.15 per barrel for FY’07, reflecting a 2.7% decline from FY’06 level of \$60.80 per barrel. The department forecasts ANS crude oil prices will decline to \$51.25 per barrel in FY’08 and to \$49.50 per barrel in FY’09.

The department’s long-term forecast for Fiscal 2014 and beyond is \$41.50 per barrel increasing with inflation.

Corbus noted that Henry Hub natural gas prices have also declined. The department expects that gas to average \$5.93 per million BTU in FY’07, a 35.6 percent decrease from \$9.20 per million BTU in FY’06. Natural gas prices are also projected to dip by \$0.21 per million BTU, to \$5.76 per million BTU in FY’08 and to increase to \$5.93 per million BTU in FY’09.

Not only has North Slope production continued to decline,” Corbus said, “but new smaller fields upon which this forecast depends require a higher level of investment by the oil companies than we are seeing. That is expected to be much improved by the Petroleum Profits Tax which grants tax credit incentives for investment.

Forecasted FY’07 North Slope production of 740,000 barrels per day is down 13.2 percent from the FY’06 average of 852,000 barrels per day. A significant portion of this decline is due to the corrosion related problems at Prudhoe Bay, Lisburne and Milne Point.

The commissioner said the department anticipates that production will decline over the next decade with volumes falling to 696,000 barrels per day in 2016. Volumes do not fall steadily as production in FY 2008 is projected to increase to 782,000 barrels per day as it is assumed there not major disruptions of the sort that plagued the North Slope in FY 2007.

“A combination of price and production factors indicates that the state will receive unrestricted general fund revenues of about \$4.9 billion from crude oil production activities in FY’07 and \$3.9 billion in FY’08. This includes royalties, production taxes, property taxes and corporate income taxes,” Corbus said.

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